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ABSTRACT

This individualized, competency-based unit on protecting businesses, the 18th of 18 modules, is on the third level of the revised Program for Acquiring Competence in Entrepreneurship (PACE). Intended for the advanced secondary and postsecondary levels and for adults wanting training or retraining, this unit, together with the other materials at this level, emphasizes the actual application of a business plan. Two competencies are dealt with in this instructional unit, including (1) preparing policies for one's firm that will minimize losses due to employee theft, vendor theft, bad checks, shoplifting, robbery, and injury and product liability and (2) determining kinds, amount, and cost of insurance needed by one's firm. Materials provided include objectives, preparation information, an overview, content (with questions in margins that guide the students' reading), activities, assessment forms, and notes and sources. The unit requires using approximately 3 hours of class time. (YLB)

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PACE
REVISED
Program for Acquiring Competence in Entrepreneurship

UNIT 18

☐ Level 1
☐ Level 2
☑ Level 3

Protecting the Business

Developed by M. Catherine Ashmore and Sandra G. Pritz

You will be able to:

- **Prepare policies for your firm that will help minimize losses due to:**
  - **employee theft**
  - **vendor theft**
  - **bad checks**
  - **shoplifting**
  - **robbery**
  - **injury and product liability**
- **Determine kinds, amount. and cost of insurance needed by your firm.**

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Research & Development Series No. 240 CB 18

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BEFORE YOU BEGIN . . .

1. Consult the *Resource Guide* for instructions if this is your first PACE unit.
2. Read the Unit Objectives on the front cover. If you think you can meet these objectives now, consult your instructor.
3. These objectives were met at Levels 1 and 2:

   Level 1 -

   - List the most common types of business crime
   - List other types of risk faced by entrepreneurs
   - Explain the need for protection against such risks
   - Discuss what entrepreneurs can do to protect themselves against risks and the losses they may cause

   Level 2 -

   - Identify various protective measures that can be used to minimize shoplifting
   - Identify procedures that can be used to reduce the amount of losses from theft
   - Identify procedures that can be used to reduce the amount of check losses
   - Identify proper procedures for guarding cash
   - Identify how to secure business premises against burglary and robbery
   - Identify the different types of business insurance policies available

   If you feel unsure about any of these topics, ask your instructor for materials to review them.

4. Look for these business terms as you read this unit. If you need help with their meanings, turn to the Glossary in the *Resource Guide*.

   risk minimization
   insurance premium
   protection plan

PROTECTING THE BUSINESS

WHAT IS THIS UNIT ABOUT?

Once you have started your own business, you will need to design a plan for protecting it against losses. All businesses risk losses, but it will be up to you to establish a sound protection program that will minimize your firm's losses. Such a protection program will consist of (1) establishing policies and procedures for sound business management practices, and (2) purchasing insurance policies that will adequately protect your business. You must remember that every business is different, so protection plans will vary.

This unit will help you design policies and procedures that will help minimize the losses and risks faced by your business. Such losses include employee and vendor theft, bad checks, shoplifting, robbery, and burglary. It will also help you to determine the kinds, amount, and cost of insurance needed to protect your business.

WHY IS A PROTECTION PLAN NEEDED?

A major part of protecting your business is the establishment of policies and procedures for dealing with specific risk situations. Policies and procedures help to reduce misunderstandings and encourage consistent solutions to similar problems.

Once you have successfully started your own business, it will be important to protect yourself and your business against the many problems and situations that slow its development. Some entrepreneurs lose large amounts of money each year—simply because they don't know how to protect their business.

Another aspect of protection that you should plan for is protection of ideas and inventions. These are assets that can be worth a great deal of money. Protection for them can be obtained through copyrights, patents, trademarks, or other registrations. This type of protection is discussed in Level 3 of the PACE unit, *Dealing with Legal Issues.*

WHAT ARE THE MAIN PARTS OF A PROTECTION PLAN?

As a business owner, you'll have the responsibility for establishing policies and procedures in several areas in order to minimize losses. You will need to formulate policies to reduce losses from shoplifting, bad checks, employee theft, vendor theft, robbery, and burglary.

WHAT GUIDELINES CAN BE USED TO REDUCE SHOPLIFTING LOSSES?

Shoplifting is a universal crime, and no business is considered safe from this menace. This is an area that requires you to set up policies for both the apprehension and prosecution of shoplifters. Strong policies for dealing with shoplifters can discourage such theft at your business.

The following questions will serve as guidelines for establishing anti-shoplifting policies in retail businesses. However, remember that once you establish policies and procedures, you must effectively train your employees in how to recognize and react to shoplifting.

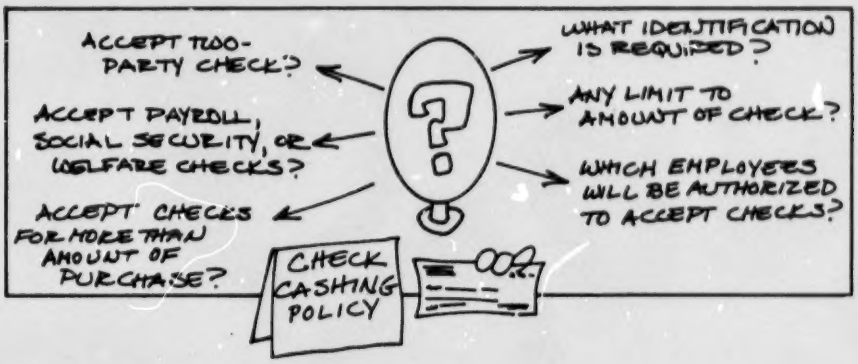
- Will you allow customers to bring shopping bags into the store without having them checked at the service desk or cashier's station?

- How many garments will you allow customers to take into dressing rooms at one time?
- What will your policy be on the prosecution of shoplifters?
- What are your state's laws regarding the apprehension of shoplifters?

In addition to establishing store policies and training employees in shoplifting prevention, you may also want to consider the purchase of equipment to deter shoplifters. These may include mirrors for the corners of your business, one-way windows to survey your store from the rear, surveillance cameras, or tamper-proof or electronic price tags. These are added expenses, but uncontrolled shoplifting losses are also a drain on your profits.

WHAT GUIDELINES CAN BE USED TO REDUCE BAD CHECK LOSSES?

In recent years, the handling of business and personal transactions by check has greatly increased. This increase in the use of checks has opened the door to another kind of criminal activity—passing "bad checks."


ACCEPT TWO-PARTY CHECK?
ACCEPT PAYROLL, SOCIAL SECURITY, OR WELFARE CHECKS?
ACCEPT CHECKS FOR MORE THAN AMOUNT OF PURCHASE?
WHAT IDENTIFICATION IS REQUIRED?
ANY LIMIT TO AMOUNT OF CHECK?
WHICH EMPLOYEES WILL BE AUTHORIZED TO ACCEPT CHECKS?
CHECK CASHING POLICY

Customer services, such as check cashing, frequently give a business an advantage over a neighboring outlet. But if you decide that your business will accept customer checks for purchases some safeguards are needed. You should have established procedures to follow so that all your employees handle checks in the same manner.

You should give consideration to the following points when formulating a check cashing policy:

- How will you identify the customer who wants to cash a check? What identification will you require?
- Will there be a limit to the amount of the check?
- Will you cash a check for more than the amount of purchase?
- Will you accept two-party checks?

- Will you accept payroll, Social Security, and welfare checks?
- Which of your employees will be authorized to accept checks and for what amount?

These are only general questions that you should consider when designing check cashing guidelines. Think of others that relate to your specific business.

You may also want to consider the purchase of equipment that will deter chronic bad check-passers. Such equipment could include computer cash registers or fingerprint/photographic equipment. You may also want to think about using a check identification service.

You must realize, however, that such equipment and services are expensive. The purchase of such equipment and services could result in a drain on your profits. Remember that you are under no obligation to accept a check. This is a courtesy and service you extend to your customers.

WHAT GUIDELINES CAN BE USED TO REDUCE ROBBERY AND BURGLARY LOSSES?

The threat of robbery or burglary is another risk that your business faces. It will be up to you to take every precaution to avoid a robbery or burglary. Good cash handling procedures, sound opening and closing routines, and adequate building safeguards are all vitally important.

There are certain precautions that you can take to minimize the chance of a robbery or burglary. Consider the following questions when designing operating procedures for your business:

- How will you maintain the lowest level of cash exposure possible?
- Will you remove excess cash from registers during the working day? Where will it be stored?
- Do you have established procedures for employees to follow in the event of a robbery?
- Will your business have a safe?
- When will you make bank deposits? Can you design this procedure to avoid a routine?
- How will you carry cash deposits to the bank?
- Do you have enough interior and exterior lighting at your business?
- Are your windows clear of ads or posters so that passing pedestrians and police can keep a watchful eye on your business?
- Are all your exterior openings secure?

- Will you purchase equipment such as alarms and cameras for your business?
- Are your business locks secure? Can they be easily broken?
- Are the grounds of your business clear of overgrown shrubbery or other places where a robber or burglar might hide?

WHAT GUIDELINES CAN BE FOLLOWED TO REDUCE VENDOR AND EMPLOYEE THEFT?

Theft by employees is another risk your business faces. Such theft includes taking money from the register, stealing merchandise, or stealing supplies and tools. However, you can take preventive steps to stop removal of cash and merchandise.

The following questions will serve as guidelines for establishing your policies and procedures to deter employee theft:

- Did you carefully check the application and references of prospective employees?
- Who can ring up purchases made by your employees?
- Where can employees put purchases they have made in the store?
- Will employees be assigned to their own cash register?
- How will you deal with employees who are caught stealing?
- Which employees will have access to store keys?
- Which employees are responsible for checking merchandise in?

Establishing adequate screening procedures for hiring employees, having realistic goals for your employees, treating them fairly, and training employees in store security will all minimize your losses due to employee theft.

Vendor theft is another problem that your business might face. To minimize such losses, establish policies on which employees are to check in vendors. Make sure they carefully count each order. You may also want to establish policies for the times that you will check in vendors. You may be too busy during peak hours to adequately check a delivery.

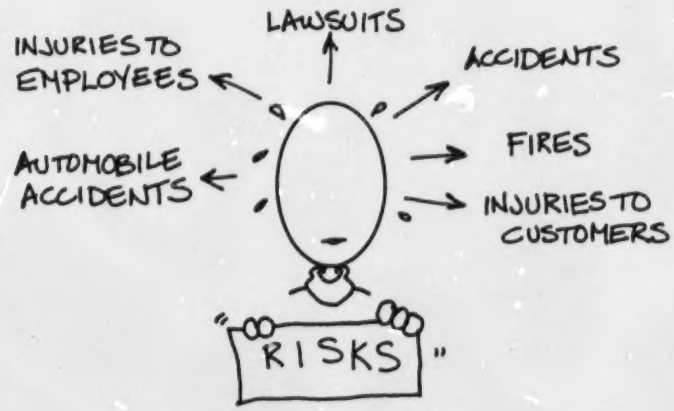
HOW CAN INJURIES AND PRODUCT LIABILITY BE REDUCED?

Good housekeeping and maintenance procedures can prevent some injuries. Look around your business with an eye for possible hazards, list them, and make sure they are checked regularly.

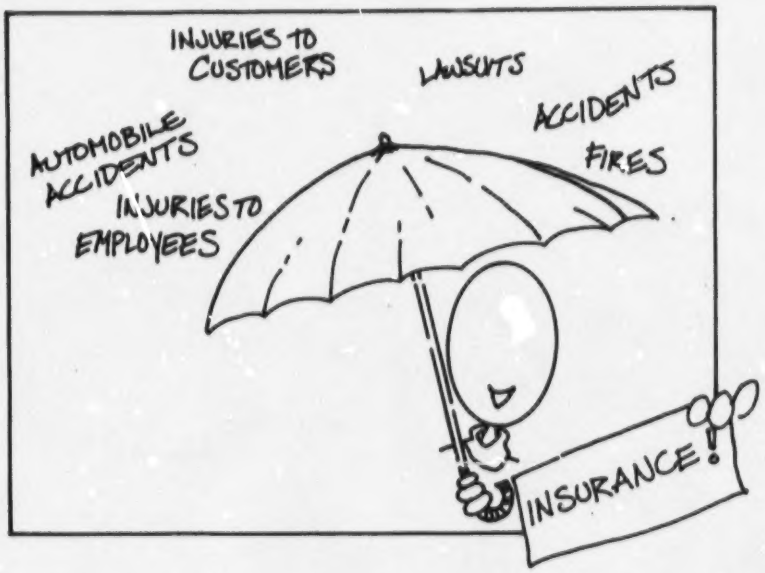
Product liability loss can be reduced by setting up a quality control system. This involves checking your products (or a sample of them), to see that they are not defective or spoiled.

HOW CAN INSURANCE PROTECT A BUSINESS?

An entrepreneur is exposed to many risks such as accidents, fires, injuries to customers or employees, automobile accidents, lawsuits (if you fail to live up to contracts), and literally hundreds of others. Through these risks, you can lose the investment you have built up in your business. Insurance is one method you can use to minimize your losses from such risks. Used correctly, a sound insurance program can contribute a great deal to your success by reducing the uncertainties under which you operate. The potential benefits of a good insurance package make it well worth your time and study.



The theory of insurance is that large numbers of people pay in money, called premiums, to a fund so that when one person suffers a loss, the fund reimburses that person to get back into business. Obviously, the more claims (requests for loss reimbursement) that the fund pays, the more money it will have to collect. While the



premiums may at times seem high, the real loser is the person who suffers a loss and doesn't have any insurance to cover it.

HOW MUCH DOES INSURANCE COST?

Insurance premiums vary according to the type of business. Many factors affect your business's risk, and therefore the rate (dollar amount of premiums) that you will be asked to pay. These might include:

- The construction materials used in your building.
- The safety equipment kept in your building.
- The type of business activities you conduct and the materials or merchandise you use or store.
- Your location. Are you near fire, police, and medical facilities? Also, how close is your business to others that have higher risk factors?
- Your own record of accidents and claims, and actions you have taken to reduce the risks of your business.

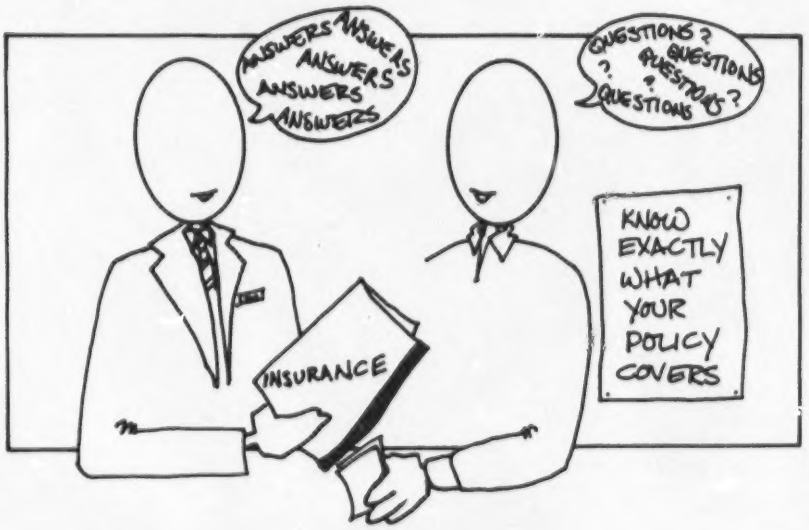
Businesses operating in high risk, high crime areas need the most insurance but often have the highest premiums. Businesses that experience a number of burglaries face increasingly higher premiums or even cancelled policies. Furthermore, they have difficulty finding insurance companies willing to sell them policies.

Consider your insurance needs carefully. Your first priority is to purchase the policy that will help minimize potential losses and provide the widest coverage for your firm. In the majority of cases, you are spending money based on the assumption that if certain potentially harmful events occur, they would be so damaging that

they could put you out of business. Therefore, you must be able to define risks you face and make provisions for them.

Decisions about insurance are complex. If you are underinsured, you are risking disaster; if you are overinsured, you are spending substantial funds for nothing.

You will also need to know exactly what your policy covers and the circumstances under which you can recover losses. Examine the policy very carefully. Read the policy completely and be sure that you understand what you have read before you sign it. You may want to contact your attorney for advice. Be sure to use a reputable insurance company and agent.


ANSWERS ANSWERS ANSWERS ANSWERS ANSWERS
QUESTIONS ? QUESTIONS ? QUESTIONS ? QUESTIONS ?
KNOW EXACTLY WHAT YOUR POLICY COVERS
INSURANCE

DO YOU HAVE ADEQUATE INSURANCE PROTECTION?

Do you have the necessary and adequate insurance coverage for your business activities? Or are you assuming too much risk? The following list can help you determine if your insurance program is adequate. It will also help you to determine if you understand any insurance policies you may already have, or provide questions for you to ask your agent when purchasing new insurance.

This checklist provides sample questions that apply to most small businesses.

PROPERTY AND FIRE INSURANCE

1. Can you add other perils, such as wind, hail, smoke, explosion, and vandalism to your fire insurance policy?

2. How will you be compensated for your losses? For example, will you be paid actual cash value or will the property be repaired and replaced with similar property?

3. Can you insure property you don't own? For example, a dry cleaner will want to insure customer's property while it is in the store.

4. If you have a claim, what actions will you have to take in the future to protect your business and to keep your policy in effect?

5. How soon will your policy pay off on a claim?

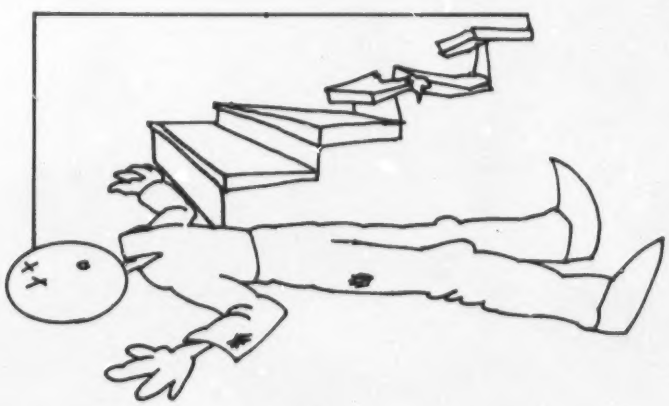
6. How soon must you place a claim after a loss has occurred?

7. If you and your insurance company disagree over the amount of loss, how will it be resolved?

8. When and how can you cancel your policy?

9. When and how can the insurance company cancel your policy?

10. Can your building be insured while it is being built?



LIABILITY INSURANCE

1. What liability limits are adequate for your business?

2. Can your business be subject to damage claims even from trespassers?

3. Does your policy cover bodily injuries as well as personal injuries (libel, slander, etc.)?

CASUALTY INSURANCE

1. Are there any articles excluded from coverage by your burglary insurance?

2. Are there special conditions which must be met in order to collect on losses due to a burglary?

3. Will your burglary insurance cover damage to your business caused by a burglar?

4. Do you qualify for federal crime insurance if you can't get insurance through normal channels?

HOW CAN YOU DETERMINE ADEQUATE COVERAGE?

A sound insurance protection plan is just as important to the success of your business as good financing, marketing, personnel development, or any other business function. And like the other functions, a good risk-minimization management program is not developed by accident. It is developed by organization and planning. A lifetime of work and dreams can be lost in a few minutes if you don't have an adequate insurance program.

On a regular basis (at least every three years), you should have your business reappraised by your insurance agent to be sure the insurance protection is adequate. As your company grows, its insurance protection needs updating.

WHAT ARE THE ELEMENTS OF AN ADEQUATE INSURANCE PROTECTION PLAN?

Your insurance program should include certain elements. To make sure that you are adequately covered, you should take action in four ways:

1. **Recognize the risks.** The first step toward good protection is to recognize the risks you face and make up your mind to do something about them. Wishful thinking or "it-can't-happen-to-me" attitudes won't lessen or remove the possibility that misfortune can strike your business.

2. **Have a plan.** Identify what you expect insurance to do for your business. Do everything possible to prevent losses and to minimize the cost of those that do occur.

3. **Study insurance costs.** Review your insurance program periodically to make sure that your coverage is adequate and that your premiums are as low as possible.

4. **Get professional advice about your insurance needs.**

ACTIVITIES

Do you feel knowledgeable about what it takes to design a protection plan for a small business? Will you be able to put some of the skills into practice? The following activities will help you experience some of the real-life situations of entrepreneurs.

INDIVIDUAL ACTIVITY

Get a form from your instructor to use for this activity. For your business, develop a total protection plan. Include the following:

1. Develop policies and procedures that will help minimize losses due to shoplifting, bad checks, employee theft, vendor theft, robbery, and burglary.
2. Develop a list of any mechanical devices, such as alarms, that your firm could purchase to help minimize losses.
3. Determine the types of insurance policies your firm will need. Contact an insurance agent to determine the amount and cost of this insurance protection.

GROUP ACTIVITY

Have three other people study the protection plan you designed for your business. Have them make suggestions. Are there areas you haven't adequately covered? Are you overprotected in some areas? Make any changes you feel are needed in your plan.

CASE STUDY

Jake has opened a new business to sell men's clothing. A few of his policies include:

1. No checks will be accepted.
2. No other employee will be issued keys to the store.
3. Employees won't be hired before carefully checking references.
4. Vendors will be checked in only before opening hours.

He has also decided to purchase the following equipment to deter crime:

1. An alarm system
2. Mirrors to be used throughout the store
3. Electronic price tags on garments

Answer these questions on a separate piece of paper: What will be the effect of these policies and equipment purchases? Would you suggest any changes? If so, describe them.

ASSESSMENT

Directions: Read the following questions to check your own knowledge of the information in this unit. When you feel prepared, ask your instructor to assess your competency on them.

1. Name the two major elements of any protection plan for your business.
2. Explain the purpose of establishing policies and procedures.
3. Identify the factors that determine how much insurance will cost your business.
4. List and discuss the four steps an entrepreneur should follow in designing the insurance program for his or her business.
5. Identify how often an entrepreneur should have his or her insurance program reappraised.
6. Explain when it is possible for a small business to be overinsured.

SOURCES USED TO DEVELOP THIS UNIT

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For further information, consult the lists of additional sources in the *Resource Guide.*

PACE

Unit 1. Understanding the Nature of Small Business

Unit 2. Determining Your Potential as an Entrepreneur

Unit 3. Developing the Business Plan

Unit 4. Obtaining Technical Assistance

Unit 5. Choosing the Type of Ownership

Unit 6. Planning the Marketing Strategy

Unit 7. Locating the Business

Unit 8. Financing the Business

Unit 9. Dealing with Legal Issues

Unit 10. Complying with Government Regulations

Unit 11. Managing the Business

Unit 12. Managing Human Resources

Unit 13. Promoting the Business

Unit 14. Managing Sales Efforts

Unit 15. Keeping the Business Records

Unit 16. Managing the Finances

Unit 17. Managing Customer Credit and Collections

Unit 18. Protecting the Business

Resource Guide

Instructors' Guide

Units on the above entrepreneurship topics are available at the following three levels:

- Level 1 helps you understand the creation and operation of a business
- Level 2 prepares you to plan for a business in your future
- Level 3 guides you in starting and managing your own business

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